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Report Highlights:

Philippine dairy imports increased by three percent last year even as the value of dairy imports dropped 20 percent due to the decline in the world market price of milk. Exports of finished dairy products, particularly whole milk powder, expanded by 70 percent in 2002. With domestic milk production able to supply only one percent of the country's dairy needs, the Philippines will continue to rely on imports to meet the requirements of its growing domestic and export markets. As of July 2003, New Zealand replaced Australia as the country's top source of dairy products.

Includes PSD Changes: Yes
Includes Trade Matrix: No
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Executive Summary

Domestic milk production increased only marginally last year despite a reported 13-percent increase in dairy animal numbers. Fresh milk production is expected to expand by at least 10 percent next year due to the importation of about 500 to 900 dairy cows under the National Dairy Authority-Expanded Rural Development Program. With domestic milk production still accounting for less than one percent of domestic milk supply, the country will continue to rely on imports to meet demand.

The volume of total dairy imports increased by about three percent in 2002 even as the dollar value of dairy imports declined by 20 percent as a result of the drop in world market prices. New Zealand has replaced Australia as the country's top source of dairy imports. Philippine exports of finished dairy products rose significantly in 2002 and are expected to continue rising as local dairy companies continue to focus on the export market.

Production

The Philippine National Dairy Authority (NDA) reports that milk production increased only minimally last year from 10.8 million liters in 2001 to 11 million liters, despite a reported 13-percent increase in dairy animal population. Post estimates 2002 milk production at 14 million liters. This includes output of small backyard dairy operations not registered with the NDA.

Total dairy animal population increased by over 13 percent from 16,155 head in 2001 to 18,281 head last year with the increase in dairy cattle contributing most significantly to the growth in animal numbers. The predominant dairy cow breed in the Philippines is the Brahman. Over half of the Philippine dairy animal population is comprised of carabaos or "water buffalo," followed by dairy cattle and goats. The number of dairy cows increased by 20 percent from 6,415 head to 7,727 head in 2002. The number of dairy carabaos (water buffaloes) likewise posted an increase of nearly 10 percent while the number of dairy goats declined by 16 percent.

DAIRY ANIMAL NUMBERS (2001-2002)			
	2001	2002	% Change
Cattle	6,415	7,727	20
Carabao	9,170	10,074	10
Goats	570	480	(16)
TOTAL	16,155	18,281	13

Source: National Dairy Authority

Domestic production of fresh milk is forecast to increase as a result of the importation of 490 dairy cattle from New Zealand in 2003 under the Herd Build-up Program of the Philippine Department of Agriculture (DA). The importation of dairy animals from New Zealand is a first since 2000 for the Philippines, which has traditionally sourced over 95 percent of its live cattle imports from Australia.

Likewise, a portion of the proceeds from USDA's FY 2003 Section 416 (b) Non Fat Dry Milk grant given to the NDA will go to the purchase of 900 head of imported dairy cattle from New Zealand for distribution by 2004 to local dairy farmers under the Expanded Dairy Program for

Rural Enhancement. Under the Program, three new dairy zones will be established with each unit consisting of 100 farmers and 300 of the imported animals. This Program is expected to boost milk production in the country by at least 2 million liters annually beginning next year.

Consumption

Philippine GDP grew better than expected at 4.6 percent last year. According to the National Economic Development Authority, the 2002 GDP growth was the highest recorded since the 1997 Asian financial crisis. Economists predict that in 2003, GDP will continue to grow but at a slower rate of 4 percent.

The Philippines is a huge market for milk and milk products with an estimated 82 million people in the country and growing annually at 2.36 percent. The country's dairy industry, which sources 99 percent of its inputs from abroad, is estimated to generate sales of roughly \$1 billion per year. The Philippines is the largest Southeast Asian market for U.S. dairy products. Dairy products are the country's second largest agricultural import after wheat.

However, the Philippines' per capita milk consumption remains among the lowest in the Asia Pacific region. Annual per capita consumption of dairy products is just 16 kilograms or roughly half of the Recommended Daily Allowance (RDA). This is partly due to reported high lactose intolerance among Filipinos, as well as the fact that milk consumption is not an established food custom. Low milk consumption is especially pronounced in rural areas where products that need refrigeration are considered a luxury. Metropolitan Manila and nearby provinces in Luzon, which accommodate about a quarter of the population, account for 45 percent of the total dairy expenditure. Milk consumption in Metro Manila is estimated at four times the national average while less developed areas generally have lower than average consumption.

Total demand for milk and milk products in the country is expected to continue improving, largely due to strong demand growth in long-life or Ultra High Temperature (UHT) milk. Additional dairy consumption is spurred by the development of new milk products targeted at niche groups such as milk for women and children of various age groups. Euromonitor estimates domestic powdered milk sales to have reached 37 million MT and UHT Milk sales at 110 million liters in 2002.

RETAIL SALES OF MILK: VOLUME 1998-2002					
	1998	1999	2000	2001	2002
Fresh/pasteurized milk (Million liters)	-	-	-	-	-
Long-life/UHT milk (Million liters)	93.70	98.33	100.20	110.50	122.44
Goat milk (Million liters)	-	-	-	-	-
Condensed/evaporated milk (Million liters)	30.00	30.50	31.00	29.45	27.40
Flavored milk drinks (Million liters)	41.00	42.30	43.80	45.40	47.20
Soy milk (Million liters)	-	-	-	-	-
Fermented dairy drinks (Million liters)	8.34	8.88	9.40	9.92	10.41
Powder milk ('000 tons)	31.79	32.30	32.79	36.06	40.39
Flavored powder milk drinks ('000 tons)	11.13	11.29	11.52	12.73	14.32

Source: Euromonitor

According to the latest Family Income and Expenditure Survey (FIES) of the National Statistics Office (NSO), total family expenditure in 2000 amounted to P54.1B, up from P42.8B in 1997. Of the total expenditure, 3 percent went to dairy products.

The current average farmgate price of raw milk is P13.78 or less than \$0.30, per liter making locally produced milk competitive with imported milk. However, due to low volumes produced, domestic milk becomes less competitive beyond the farm level when the cost of transportation and further processing are factored in.

Trade

Skim Milk and Whole Milk powder imports comprise roughly 70 percent of total dairy imports of the country. Almost half of the country's dairy imports are skim milk while nearly a quarter is whole milk powder. The dairy processing industry in the country relies entirely on imported powdered milk for raw materials. A significant portion of the country's Skim Milk powder (SMP) imports goes into further processing. The Philippines is the fourth largest SMP importer in the world.

PHILIPPINE: VOLUME OF MILK & MILK PRODUCT IMPORTS, 2001-02			
(In million liters, Liquid Milk Equivalent)			
	2001	2002	% Change
Skim Milk Powder	743	798	7
Whole Milk Powder	364	308	(15)
Butter Milk/ Butter Milk Powder	164	172	5
Whey Powder	245	279	14
Fresh Milk	38	42	10
Evaporated Milk	18	12	(31)
Others	26	36	41
TOTAL MILK & CREAM	1,596	1,647	3
BUTTER & BUTTERFAT	61	68	11
CHEESE	23	22	(6)
CURD	54	46	(14)
TOTAL	1,734	1,783	3

Source: National Dairy Authority

Imports of SMP improved last year, reaching close to 100,000 MT after a slight contraction in 2001. Imports of SMP are likely to increase next year and beyond because of the growing domestic and export demand of Philippine dairy processors.

On the other hand, Whole Milk powder (WMP) imports declined in 2002. The increasing demand for UHT fluid milk is likely to displace WMP sales in the domestic market. Imports, as well as domestic consumption of WMP, are likely to remain flat and may decline in the long run with increasing appreciation of fluid milk in the market. Likewise, the continuing health consciousness of the Filipino consumer may shift the consumption to low-fat and non-fat milk powders and fresh milk products.

Australia has traditionally supplied nearly half of all Philippine dairy imports. However, as of July 2003, New Zealand took over as the country's number one dairy supplier. New Zealand currently supplies 45 percent of the country's dairy requirements, followed by Australia at 23 percent. This year, Thailand has emerged as a major supplier of dairy products to the country, supplying about 12 percent. Currently, the United States has a market share of 6 percent.

COUNTRY SOURCES OF MILK AND MILK PRODUCTS IMPORTS 2002-2003					
YEAR	COUNTRY	Quantity	Percent	CIF Value	Percent
		(TMT)		(Millions \$)	
2003	Total	176.90	100.00	203.92	100.00
(Jan-June)	1. New Zealand	66.61	37.65	91.42	44.83
	2. Australia	33.33	18.84	46.48	22.79
	3. Thailand	35.71	20.19	23.66	11.60
	4. USA	11.87	6.71	10.34	5.07
	5. France	4.97	2.81	5.32	2.61
	6. Others	24.41	13.80	26.70	13.09
2002	Total	287.03	100.00	358.57	100.00
	1. Australia	107.38	37.41	147.84	41.23
	2. New Zealand	94.65	32.98	131.76	36.75
	3. USA	20.00	6.97	18.45	5.15
	4. Singapore	11.37	3.96	9.85	2.75
	5. France	8.13	2.83	7.70	2.15
	6. Others	45.50	15.85	42.97	11.98

Source: National Dairy Authority

Imports of fluid milk, particularly UHT milk, rose significantly in 2002 as in previous years. Fluid milk imports doubled in the last five years as a result of the evolving preference of Filipino consumers for fluid milk. As reported by Euromonitor, sales of UHT milk have expanded dramatically in the last five years, and will likely continue to expand in the future with growing demand for the product.

According to the U.S. Dairy Export Council, more cheese is consumed in the Philippines than in all the other Southeast Asian countries combined. The expansion of fast food chains throughout the country is helping to boost demand and strengthen cheese imports. However, even with the expansion of the fast food and food retail sectors, imports of cheese remain steady at around 5,000 MT as demand for imported cheeses is mostly limited to high-income groups. Imported cheeses are seen as non-essential and often luxury food items for nearly 40 million Filipinos who live on less than \$1 a day.

Exports of local dairy products have risen significantly over the last five years. In 2002, the Philippines exported \$49 million worth of milk and milk products abroad from recorded exports of only \$1.1 million in 1997. The dramatic increase in imports is a result of the expansion efforts and export orientation of dairy processors. Last year, Nestle began to upgrade its milk exporting plants in Southern Luzon.

The main export markets are the ASEAN countries, particularly Malaysia and Indonesia, which account for 47 and 38 percent of the market, respectively. Other export destinations include Vietnam and Thailand. Exports to the United States, although small, have been rising. Last year dairy exports to the U.S. were valued at about \$2.2 million from only \$122,000 five years ago. About 97 percent of all Philippine dairy exports are in the form of whole milk powder. Exports of SMP started recently with 2002 exports recorded at 16,000 MT.

Marketing

Four major milk processors dominate the Philippine dairy industry. Despite the government's efforts to encourage development of the local dairy industry, the Philippines imports 99 percent of its milk requirements either as finished goods or skim milk powder for further processing. Nestle remains the market leader nation-wide. This is due to its strong position in the fast-growing powdered milk sub-sector. The liquid milk sub-sector, on the other hand, is dominated by Alaska Milk Corporation.

However, according to the National Dairy Authority, two recent market trends indicate upward signals for local dairy producers: (1) the increasing consumer appreciation and demand for fresh milk and (2) the increasing support by national and local government officials for milk feeding programs to address malnutrition.

The strong growth of foreign and local coffee outlets in Metro Manila has bolstered the demand for fresh milk. Several food outlets, particularly in Metro Manila, have significantly increased their use of fresh milk, which has in turn encouraged new entrants, albeit small, into the local industry. On the government side, local government units and legislators have increased their sponsorship of milk feeding programs for malnourished children, increasing demand for fresh milk.

Policy

In September 2002, the Philippines notified the WTO of its intention to require accreditation by 3rd party auditors of all plants exporting meat, poultry and dairy products to the Philippines. Memorandum Order Number 7 (MO7) was supposed to ensure compliance with "internationally recognized standards in Hazard Analysis and Critical Control Point (HACCP) program." The measure was to take effect April 1, 2003 and would have adversely affected over \$32 million worth of US dairy exports to the Philippines. Representations by the USG and other trading partners opposing the unnecessary imposition of MO7, both bilaterally and at the SPS Committee in Geneva in November 2002, resulted in the postponement of its implementation. The proposed regulation is currently under review by the Philippine Department of Agriculture.

Currently dairy imports are assessed a 3-7 percent customs duty. Tariffs of several products were expected to drop to 5 percent starting January 2003. However, Executive Order 164, issued on January 10, 2003 by the Office of the Philippine President, effectively froze tariffs at their 2002 levels. Affected tariff lines include yoghurt (0403.1090), buttermilk (0403.9090), grated cheese (0406.2010) and other cheeses (0406.9000).

TARIFF SCHEDULE 2002-2004				
H.S. Code	Description	Rate of Duty		
		2002	2003	2004
0401	Milk and cream, not concentrated nor containing			
	added sugar or other sweetening matter			
0401.10.00	Of a fat content, by weight, not exceeding 1%	3	3	3
0401.20.00	Of a fat content, by weight, exceeding 1% but not	3	3	3
	exceeding 6%			
0401.30.00	Of a fat content, by weight, exceeding 6%	3	3	3

0402	Milk and cream, concentrated or containing added			
	sugar or sweetening matter			
0402.10.00	In powder, granules or other solid forms, of a fat	3	3	3
	content, by weight, not exceeding 1.5%			
	In powder, granules or other solid forms, of a fat			
	content, by weight exceeding 1.5%			
0402.21.00	Not containing added sugar or other sweetening	3	3	3
	Matter			
0402.29.00	Other	3	3	3
	Other:			
0402.91.00	Not containing added sugar or other sweetening	5	5	5
	Matter	5	5	5
0402.99.00	Other			
0403	Buttermilk, curdled milk and cream, yoghurt, kefir and other			
	fermented or acidified milk and cream, whether or not			
	concentrated or containing added sugar or other sweetening			
	matter or flavoured or containing added fruit, nuts or cocoa			
0403.10	Yoghurt			
0403.10.10	Containing fruits, nuts, cocoa or flavoring matter;	7	7	5
	liquid yoghurt			
0403.10.10	Other	7	5	5
0403.90	Other			
0403.90.10	Buttermilk	3	3	3
0403.90.90	Other	7	5	5
0404	Whey, whether or not concentrated or containing added sugar			
	or other sweetening matter; products consisting of natural milk			
	constituents, whether or not containing added sugar or other			
	sweetening matter, not elsewhere specified or included			
0404.10.00	Whey or modified whey, whether or not	3	3	3
	concentrated or containing added sugar or other			
	sweetening matter			
0404.90.00	Other	3	3	3
	Butter or other fats and oils derived from milk; dairy spreads			
0405.10.00	Butter	7	7	5
0405.20.00	Dairy spreads	7	7	5
0405.90.00	Other	1	1	1
0406	Cheese or curd			

0406.10.00	Fresh (unripened or uncured) cheese, including	3	3	3
	whey cheese, and curd			
0406.20	Grated or powdered cheese, of all kinds:			
0406.20.10	In containers of gross weight exceeding 20 kgs.	3	3	3
0406.20.90	Others	7	5	5
0406.30.00	Processed cheese, not grated or powdered	7	7	5
0406.40.00	Blue-veined cheese	3	3	3
0406.90.00	Other cheese	7	5	5

PSD Table							
Country	Philippines						
Commodity	Dairy, Milk, Fluid				(1000 HEAD)(1000 MT)		
	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2002		01/2003		01/2004	MM/YYYY
Cows In Milk	0	2	0	3	0	3	(1000 HEAD)
Cows Milk Production	0	10	0	11	0	12	(1000 MT)
Other Milk Production	0	3	0	3	0	3	(1000 MT)
TOTAL Production	0	13	0	14	0	15	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Other Imports	0	40	0	45	0	48	(1000 MT)
TOTAL Imports	0	40	0	45	0	48	(1000 MT)
TOTAL SUPPLY	0	53	0	59	0	63	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Other Exports	0	0	0	0	0	0	(1000 MT)
TOTAL Exports	0	0	0	0	0	0	(1000 MT)
Fluid Use Dom. Consum.	0	48	0	54	0	58	(1000 MT)
Factory Use Consum.	0	5	0	5	0	5	(1000 MT)
Feed Use Dom. Consum.	0	0	0	0	0	0	(1000 MT)
TOTAL Dom. Consumption	0	53	0	59	0	63	(1000 MT)
TOTAL DISTRIBUTION	0	53	0	59	0	63	(1000 MT)
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0	(1000 MT)
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	(1000 MT)

PSD Table							
Country	Philippines						
Commodity	Dairy, Milk, Nonfat Dry				(1000 MT)		
	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2002		01/2003		01/2004	MM/YYYY
Beginning Stocks	4	4	2	2	2	2	(1000 MT)
Production	0	0	0	0	0	0	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Other Imports	92	100	92	105	0	110	(1000 MT)
TOTAL Imports	92	100	92	105	0	110	(1000 MT)
TOTAL SUPPLY	96	104	94	107	2	112	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Other Exports	0	12	0	14	0	16	(1000 MT)
TOTAL Exports	0	12	0	14	0	16	(1000 MT)
Human Dom. Consumption	94	90	92	91	0	94	(1000 MT)
Other Use, Losses	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	94	90	92	91	0	94	(1000 MT)
TOTAL Use	94	102	92	105	0	110	(1000 MT)
Ending Stocks	2	2	2	2	0	2	(1000 MT)
AL DISTRIBUTION	96	104	94	107	0	112	(1000 MT)
Calendar Yr. Imp. from U.S.	10	10	0	10	0	10	(1000 MT)
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	(1000 MT)

PSD Table							
Country	Philippines						
Commodity	Dairy, Dry Whole Milk Powder				(1000 MT)		
	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2002		01/2003		01/2004	MM/YYYY
Beginning Stocks	0	0	0	0	0	0	(1000 MT)
Production	0	0	0	0	0	0	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Other Imports	45	45	42	42	0	48	(1000 MT)
TOTAL Imports	45	45	42	42	0	48	(1000 MT)
TOTAL SUPPLY	45	45	42	42	0	48	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Other Exports	0	15	0	15	0	18	(1000 MT)
TOTAL Exports	0	15	0	15	0	18	(1000 MT)
Human Dom. Consumption	45	30	42	27	0	30	(1000 MT)
Other Use, Losses	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	45	30	42	27	0	30	(1000 MT)
TOTAL Use	45	45	42	42	0	48	(1000 MT)
Ending Stocks	0	0	0	0	0	0	(1000 MT)
TOTAL DISTRIBUTION	45	45	42	42	0	48	(1000 MT)
Calendar Yr. Imp. from U.S.	0	1	0	1	0	1	(1000 MT)
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	(1000 MT)

PSD Table							
Country	Philippines						
Commodity	Dairy, Cheese				(1000 MT)		
	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		01/2002		01/2002		01/2002	MM/YYYY
Beginning Stocks	0	0	0	0	0	0	(1000 MT)
Production	1	1	1	2	0	2	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Other Imports	5	5	6	6	0	6	(1000 MT)
TOTAL Imports	5	5	6	6	0	6	(1000 MT)
TOTAL SUPPLY	6	6	7	8	0	8	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Other Exports	0	0	0	0	0	0	(1000 MT)
TOTAL Exports	0	0	0	0	0	0	(1000 MT)
Human Dom. Consumption	6	6	7	8	0	8	(1000 MT)
Other Use, Losses	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	6	6	7	8	0	8	(1000 MT)
TOTAL Use	6	6	7	8	0	8	(1000 MT)
Ending Stocks	0	0	0	0	0	0	(1000 MT)
TOTAL DISTRIBUTION	6	6	7	8	0	8	(1000 MT)
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0	(1000 MT)
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	(1000 MT)